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Vale's performance in 2012

Vale presents its financial performance forthe full year of 2012 and its fourth quarter (4Q12).

2012 was challenging for the global economy, which amid heightened uncertaintyexpanded for the second consecutive year at below trend pace. One of the consequences of the adverse macroeconomic environment was a generalized decline inminerals and metals prices, with the exception of gold, a precious metal whose priceperformance is influenced by other drivers. Iron ore prices became much more volatile,particularly showing large downward volatility in the third quarter of the year.

Against this backdrop, our financial performance was negatively impacted. Its mainindicators dropped significantly in relation to 2011, a year when Vale achieved its bestfinancial results since its incorporation in 1942. Our underlying earnings1 reached US$11.2 billion against US$ 23.2 billion in 2011, and adjusted EBITDA1 was US$ 19.1 billion,falling 43.3%, but being the third highest in our history. Almost all of the reduction wascaused by the lower prices in 2012, given their negative impact of US$ 13.8 billion on theadjusted EBITDA.

We distributed dividends to shareholders of US$ 6.0 billion, the second largest evermade by Vale and the largest among big miners in 2012. Pursuant to our policy, we announced last month a proposal to the Board of Directors to pay a minimum dividendof US$ 4.0 billion in 2013, still a fair amount.

Even faced with a decrease in cash flow, in addition to the dividend distribution we wereable to finance US$ 17.7 billion of capital and R&D expenditures while maintaining acapital structure and a low-risk debt portfolio consistent with the requirements for the Acredit rating.

The ramp up of Moatize, Oman I & II and Bayóvar allowed for record output of coal,pellets and phosphate rock. Iron ore production in 4Q12 was the biggest for a fourthquarter, contributing to amplify our exposure to the V-shaped recovery of iron ore pricesthat has been taking place since mid September 2012.

Our iron ore and pellet shipments reached an all-time high figure of 303.4 million metrictons. In addition to the sales increase, our iron ore marketing strategy based on theutilization of a global distribution network is contributing to capture more value through higher sales prices.

We have begun to deliver on the commitments we made.

Immense progress was achieved in environmental permitting, with more than 100licenses obtained in Brazil. These will allow for the continuation of our operations on aregular basis and the execution of important projects, such as Carajás Serra Sul S11D,which will mean an increased supply of iron ore at lower costs and higher quality, thebest in the world, creating more value and strengthening our undisputed leadership inthe global market.

Simultaneously, we have been gradually solving issues related to tax litigations, animportant step change, as it eliminates financial risks and frees resources to focus ourattention on managing the business.

Two new copper projects commenced operations in 2012: Salobo and Lubambe. Salobo,in Carajás, a copper with gold operation, is a world-class asset, in the first quartile of theindustry cost curve. Lubambe, developed through a joint venture, is our first coppermine in the heart of the rich African Copperbelt, the area with the largest growthpotential in the world for copper supply expansion.

VNC, our nickel & cobalt project in New Caledonia, is ramping up and proving to betechnically feasible. The operation of the second line began this month and within amonth we will be able to assess its economic viability.

The successful ramp up of projects will be critical to realize the large upside in theperformance of our base metals business, alongside various initiatives being developedto extract maximum value from the existing operations.

The transaction involving the sale of 25% of the gold by-product of Salobo for the life ofthe mine and 70% of the gold by-product of Sudbury for the next 20 years will generateUS$ 1.9 billion in cash in the very short term. Moreover, we will receive warrants valuedat US$ 100 million and US$ 400 per ounce of gold will be paid to Vale against delivery toour counterpart during the life of the contract. This unlocks part of the substantial valuehidden in our base metals assets, demonstrating our firm commitment and capacity tomaximize shareholder value on a sustainable basis.

Discipline in capital allocation, a key factor in shareholder value creation, is reflected inthe cut in research & development expenditures: they decreased 12% in relation to 2011 and were 36% less than budgeted for 2012. We are refocusing our R&D effort to invest inopportunities with real potential to significantly reward the resources allocated. This willimply a smaller portfolio of projects in the future, taking advantage of our wealth of highquality mineral resources and using technology as a tool to maximize value and topursue sustainability.

Innovation is becoming an important driver of competitiveness in the global miningindustry. The CORe project was implemented at the Sudbury operations, involving asimpler flowsheet with lower operating costs and higher metal recovery. This year, Long Harbour, in Canada, is coming on stream, with a new technological concept for nickelproduction. It has an integrated hydrometallurgical flowsheet, which entails lower costs,higher efficiency and elimination of emission of SO2 and particulates. The use oftruckless mining in our future operations at Serra Sul S11D is another majortechnological change that also reconciles the goals of cost minimization andsustainability.

The divestment program of non-core assets is another component of the greater focuson discipline in capital allocation. It produced US$ 1.5 billion, and simplifies the assetportfolio and concentrates management attention on what is really important formaximizing value.

Several measures were adopted to minimize working capital needs to liberate morecapital to help finance the execution of our projects, bringing more efficiency to capitalmanagement.

Initiatives to produce a lower cost structure, on a permanent basis, are being activelypursued though some time will be needed to show a material difference from the past.We strongly believe that we are on track to deliver and some early progress can alreadybe seen in the SG&A expenses – which fell by 4.0% against 2011 and by 30.3% in 4Q12when compared to 4Q11 – and the behavior of materials and outsourced services, twoimportant cost items, that dropped US$ 251 million in 4Q12 on a quarter-on-quarterbasis.

At Vale, passion for people comes first. Health and safety is a key company priority aswell as sustainability and support for the communities where we operate. The frequencyof accidents remains on a declining trend but we continue to pursue a much saferenvironment for our employees. In 2012, we invested US$ 1.0 billion in environmentalprotection and conservation and US$ 318 million in social projects, destined to improvequality of life and to provide opportunities for social and economic mobility.

[1]Excluding the effect of non-cash non-recurring items.

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More information

Mônica Ferreira
monica.ferreira@vale.com
Rio de Janeiro
+55 (21) 3845-3636

Fatima Cristina
fatima.cristina@vale.com
Rio de Janeiro
+55 (21) 3485-3621